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Costa Mesa, CA 92626-7651

Independent Auditors' Report

The Honorable Members of City Council
City of Riverside, California:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of City of Riverside, California (the City), as of and for the year ended June 30, 2002, which collectively comprise the City's financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Riverside's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Riverside, California, as of June 30, 2002 and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2002 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis on pages 2 through 16 and the pension plan supplementary information on page 46 are not a required part of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Riverside's basic financial statements. The *combining and individual fund financial statements and schedules* are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole. The *introductory section and statistical section* have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

KPMG LLP

September 30, 2002



Management's Discussion and Analysis

As management of the City of Riverside (the City), we offer this narrative overview and analysis of financial activities for the fiscal year ended June 30, 2002. We encourage readers to consider the information presented here in conjunction with additional information furnished in our letter of transmittal, which can be found on page v. of this report. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements, comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains certain supplementary information.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in the net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business type activities*). The governmental activities of the City include general government, public safety, highways and streets, and culture and recreation. The business type activities of the City include Electric, Water, Sewer, Refuse, Airport and Transportation services.

The government-wide financial statements include the City and its component units. The City's component units are the Riverside Redevelopment Agency, Riverside Public Financing Authority, Parking Authority of the City of Riverside, Riverside Municipal Improvements Corporation, and the Riverside Civic Center Authority. Although legally separate, these entities function for all practical purposes as departments of the City and therefore have been blended as part of the primary government.

The government-wide financial statements can be found on pages 17-18 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental, proprietary, and fiduciary.

Governmental funds. *Governmental funds* are used to account for the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources* as well as on balances of spendable resources available at the end of the fiscal year.

It is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. Reconciliations to facilitate this comparison are provided for both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances.

The City maintains nineteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Redevelopment Agency Debt Service Fund, both of which are considered to be major funds. Data from the other seventeen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* and can be found on pages 51-62 in this report.

The City adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 19-23 of this report.

Proprietary funds. The City maintains two different types of proprietary funds, enterprise and internal service funds. Enterprise funds are used to report the same functions presented as *business type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Electric, Water, Sewer, Refuse, Airport and for its Transportation services. *Internal service* funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for self-insured insurance programs, its central stores and for its fleet of vehicles. Because these services predominantly benefit governmental rather than business type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements (*business type activities*), only in more detail. The proprietary fund financial statements provide separate information for the Electric, Water and Sewer operations, all of which are considered to be major funds of the City. The three remaining proprietary funds noted above are combined into a single, aggregated presentation. All internal service funds are also combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the non-major proprietary funds and the internal service funds is provided in the form of *combining statements* and can be found on pages 63-72 in this report.

The basic proprietary fund financial statements can be found on pages 24-28 of this report.

Agency funds. Agency funds are used to account for situations where the City's role is purely custodial. Agency funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City's own programs. All assets reported in Agency funds are offset by a liability; the accrual basis of accounting is used to recognize receivables and payables.

The Agency fund financial statement can be found on page 29 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 30 of this report.

Government-wide Financial Analysis

The following table presents a summarization of the City's assets, liabilities and net assets for its governmental and business type activities. As noted earlier, a government's net asset position may serve over time as a useful indicator of its financial position.

	Governmental Activities		Business type Activities		Total	
	2002	2001	2002	2001	2002	2001
Current and other assets	\$ 284,915	\$ 266,681	\$ 328,863	\$ 294,087	\$ 613,778	\$ 560,768
Capital assets, net	<u>478,043</u>	<u>447,923</u>	<u>618,263</u>	<u>569,426</u>	<u>1,096,306</u>	<u>1,017,349</u>
Total assets	<u>762,958</u>	<u>714,604</u>	<u>947,126</u>	<u>863,513</u>	<u>1,710,084</u>	<u>1,578,117</u>
Current liabilities	106,480	104,075	33,620	52,079	140,100	156,154
Long-term liabilities	<u>135,216</u>	<u>135,729</u>	<u>403,498</u>	<u>328,771</u>	<u>538,714</u>	<u>464,500</u>
Total liabilities	<u>241,696</u>	<u>239,804</u>	<u>437,118</u>	<u>380,850</u>	<u>678,814</u>	<u>620,654</u>
Net assets:						
Invested in capital assets, net of related debt	465,803	422,886	293,936	279,165	759,739	686,736
Restricted	115,352	106,320	38,535	31,154	153,887	137,474
Unrestricted	<u>(59,893)</u>	<u>(54,406)</u>	<u>177,537</u>	<u>172,344</u>	<u>117,644</u>	<u>133,253</u>
Total net assets	<u>\$ 521,262</u>	<u>\$ 474,800</u>	<u>\$ 510,008</u>	<u>\$ 482,663</u>	<u>\$ 1,031,270</u>	<u>\$ 957,463</u>

The City's assets exceeded liabilities by \$1,031,270 at June 30, 2002, an increase of \$73,807 from June 30, 2001.

By far the largest portion of the City's net assets (73 percent) reflects its investment in capital assets (i.e., land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending.

An additional portion of the City's net assets (15 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$117,644) may be used to meet the government's ongoing obligations to citizens and creditors. Of this amount, \$177,537 is held by the business type activities; the governmental activities reflect a negative \$59,893. The Riverside Redevelopment Agency (the Agency), a blended component unit of the City, represents \$98,192 of negative unrestricted net assets for 2002 and was \$97,809 in the prior year. The remaining governmental activities of the City have positive unrestricted net assets of \$38,299, mostly attributable to the City's General Fund.

The Agency exists to finance improvements that serve to remediate blight within the City. Often these activities do not result in a residual asset, but rather underwrite the cost of a development activity deemed beneficial in meeting the Agency's objectives. The resulting statement of net assets reflects the debt obligation to be repaid through future tax revenues, without an offsetting asset. While this is the routine functioning of such an entity, when blended with the City, its negative unrestricted net assets causes the governmental activities to report a negative position.

The government's total net assets increased by \$73,807 during the current fiscal year. This is due to growth in both the governmental (\$46,462) and business type (\$27,345) activities. This is primarily due to continued investment by the City in its infrastructure, which is largely funded by grants and dedicated revenue sources. Growth also occurred in restricted funds held for future capital projects. Lastly, business type unrestricted assets grew based on municipal services charges for service exceeding the current years operating expenditures.

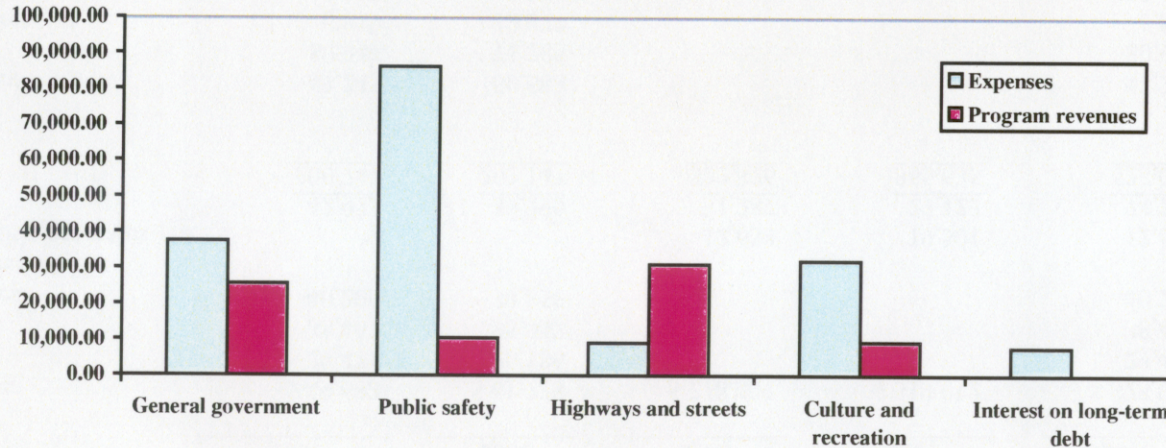
The following condensed summary of activities of the City's governmental and business type operations for the period ended June 30, 2002 shows total net assets increasing by \$73,807. The prior fiscal year is also presented for comparative purposes. Also included in the following analysis are revenue and expense graphs to aid the reader in their understanding of the results of the current year's activities.

	Governmental Activities		Business Type Activities		Total	
	2002	2001	2002	2001	2002	2001
Revenues:						
Charges for services	\$ 49,682	\$ 61,778	\$ 278,401	\$ 319,012	\$ 328,083	\$ 380,790
Property taxes	29,471	26,186			29,471	26,186
Sales taxes	38,467	35,037			38,467	35,037
Other taxes and fees	40,205	39,856			40,205	39,856
Grants and contributions not restricted to specific programs			12,638	19,501	12,638	19,501
Other	<u>42,922</u>	<u>39,290</u>	<u>31,287</u>	<u>27,122</u>	<u>74,209</u>	<u>66,412</u>
Total revenues	<u>200,747</u>	<u>202,147</u>	<u>322,326</u>	<u>365,635</u>	<u>523,073</u>	<u>567,782</u>
Expenses:						
General government	47,245	60,688			47,245	60,688
Public safety	80,944	71,285			80,944	71,285
Highways and streets	6,819	12,277			6,819	12,277
Culture and recreation	29,607	10,512			29,607	10,512
Interest on long-term debt	7,727	8,083			7,727	8,083
Electric			215,131	251,185	215,131	251,185
Water			28,978	27,460	28,978	27,460
Sewer			19,214	19,463	19,214	19,463
Refuse			10,821	11,069	10,821	11,069
Airport			1,045	892	1,045	892
Transportation			<u>1,735</u>	<u>1,580</u>	<u>1,735</u>	<u>1,580</u>
Total expenses	<u>172,342</u>	<u>162,845</u>	<u>276,924</u>	<u>311,649</u>	<u>449,266</u>	<u>474,494</u>
Increase in net assets before Transfers	28,405	39,302	45,402	53,986	73,807	93,288
Transfers	<u>18,057</u>	<u>17,527</u>	<u>(18,057)</u>	<u>(17,527)</u>	<u>--</u>	<u>--</u>
Increase in net assets	46,462	56,829	27,345	36,459	73,807	93,288
Net assets – beginning	474,800	417,971	482,663	446,204	957,463	864,175
Net assets – ending	<u>\$ 521,262</u>	<u>\$ 474,800</u>	<u>\$ 510,008</u>	<u>\$ 482,663</u>	<u>\$ 1,031,270</u>	<u>\$ 957,463</u>

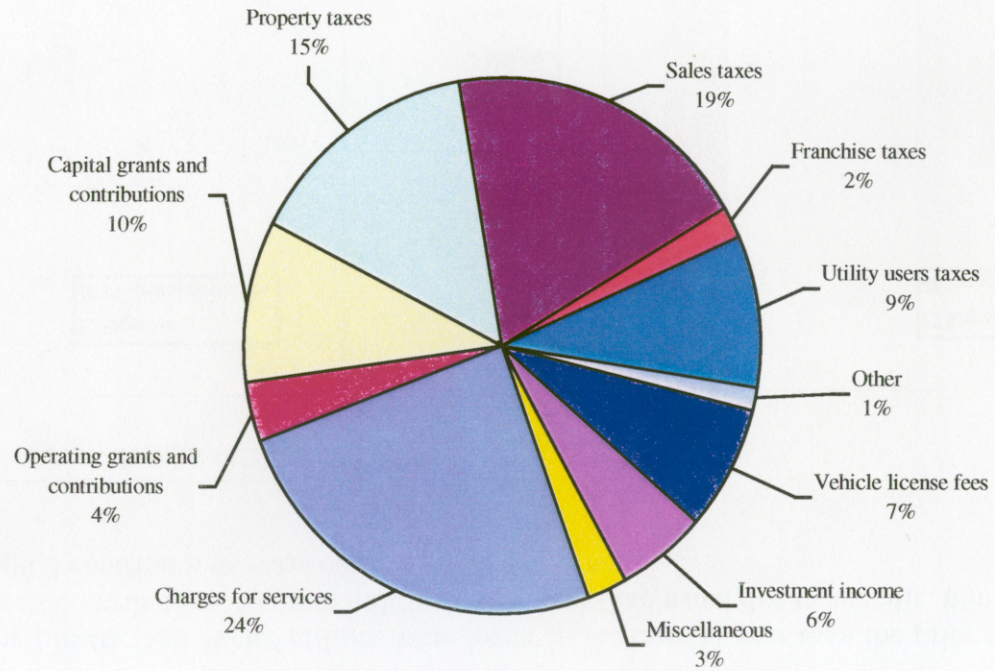
Governmental activities. Governmental activities increased the City's net assets by \$46,462, accounting for 63 percent of the total growth in net assets. The prior fiscal period increased net assets by \$56,829. Key elements of this year's increase in relation to the prior year are as follows:

- Charges for services decreased by \$12,096 and General government expenses decreased by \$13,433. During fiscal year 2001, an energy retrofit program initiated throughout the City caused Charges for services and General government expenses to both increase by about \$7,000; this activity was not duplicated in fiscal year 2002. The remaining decrease in the above categories was largely caused by an approximately \$3,000 reduction in one time highway and street revenue.
- Sales taxes increased by \$3,430, hitting another record year due to the continued growth of retail sales.
- Property taxes increased by \$3,285 reflecting increased assessed values generated by the strong housing market and redevelopment efforts.
- While significant variances between years exist between the various expense functions, the total increase was \$9,497, which is primarily attributed to additional public safety personnel and salary and other benefit improvements.

Expenses and Programs Revenues – Governmental Activities



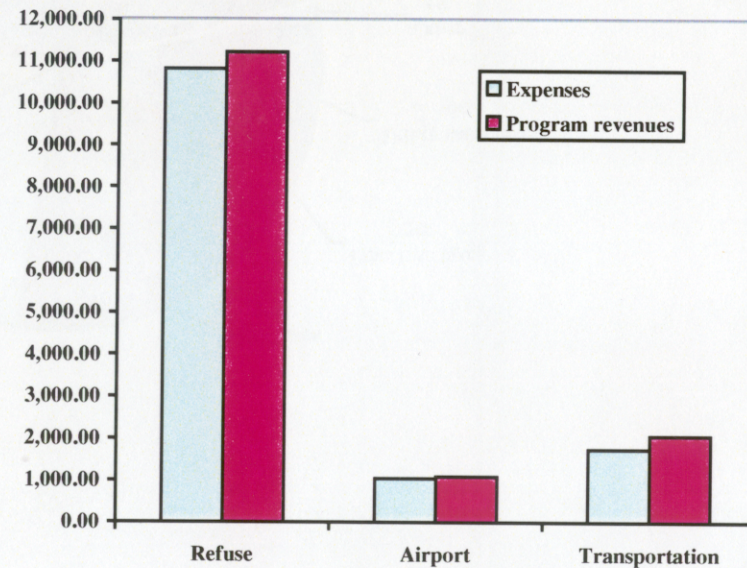
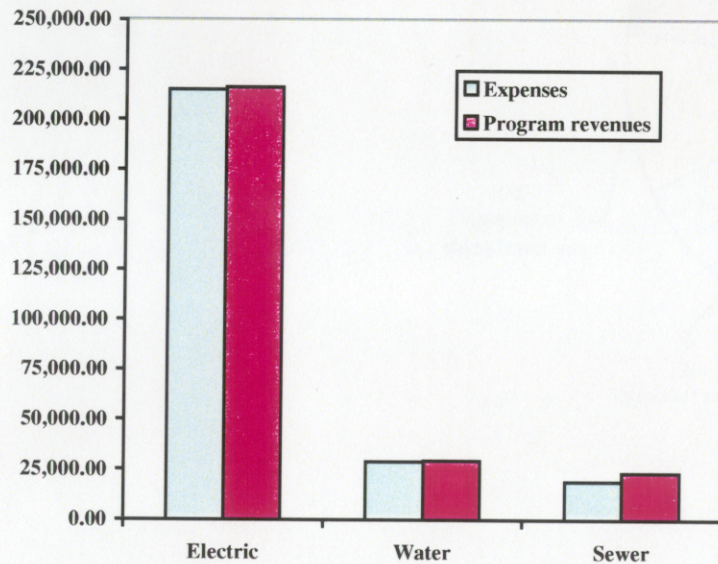
Revenues by Source – Governmental Activities



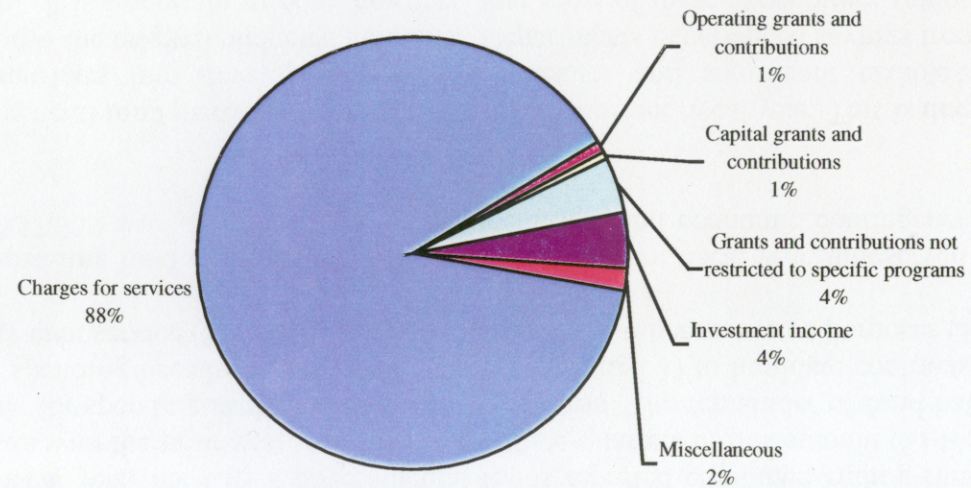
Business type activities. Business type activities increased the City's net assets by \$27,345, accounting for 37 percent of the total growth in net assets. Net assets increased in the prior fiscal period by \$36,459. Key elements of this year's increase in relation to the prior year are as follows:

- The most substantial changes from the prior year's amounts are in charges for service and electric expenses. The City's Electric Utility participates, as circumstances require, in the purchase and sale of excess power not required by its customer base. The prior year's level of trading activity was substantially greater due to California energy crisis. As the market has settled, the level of trading activity has slowed. This slowed the overall growth in net assets, as this trading activity was profitable for the City. Additionally, increased personnel costs due to the salary and benefit improvements were not recovered, as rates remained stable during the current year.
- Capital contributions to the Electric and Water utilities were lower in the current year than the prior year by \$2,790 and \$4,065, respectively. The prior year's contributions for both utilities was higher than usual due to specific, non-routine projects. The level of traditional developer capital contributions was consistent between years.

Expenses and Programs Revenues – Business Type Activities



Revenues by Source – Business Type Activities



Financial Analysis of the City's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$185,468, an increase of \$5,339 in comparison with the prior year. Approximately three-quarters of this amount (\$144,665) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$16,882), 2) to pay debt service (\$11,486), and 3) for a variety of other restricted purposes (\$12,435).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the general fund was \$63,829, of which \$57,959 was designated for future operations and economic contingencies. The total fund balance reached \$74,776.

The fund balance of the City's general fund increased by \$4,639 during the current fiscal year. This is due to the continued strength of the local economy, which translates into development-oriented revenues and significant taxable sales. Revenues finished approximately \$16.4 million above the original budgeted amounts. Departments experienced savings from their budgeted allocations, of approximately \$35.7 million. It is important to note, however, that most of these expenditure savings are designated for capital projects and the spending authority is continued to the next fiscal year. These committed monies are reflected as a designation of fund balance. Also, an additional \$1.7 million was set-aside in the economic contingency portion of the fund balance, increasing that balance to \$21.4 million.

The Redevelopment debt service fund has a total fund balance of \$9,955, all of which is reserved for the payment of debt service. A net decrease in the fund balance occurred during the current year (\$925), as fewer funds were required to meet near term debt service payments.

Proprietary funds. The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Electric, Water and Sewer operations at the end of the year amounted to \$85,550, \$27,932 and \$64,315, respectively. The total growth in net assets for these funds was \$2,284, \$16,014 and \$7,643, respectively, demonstrating the adequacy of the current rate structure for these funds.

General Fund Budgetary Highlights

The increase from the total original budgeted expenditures to the final amounted to \$14,257 and can be generally summarized as follows:

- ❑ The Police department added appropriations of \$4,102, primarily for grant funded operational charges;
- ❑ The Fire department added appropriations of \$1,694, primarily for grant funded operational charges;
- ❑ The Park and Recreation department added appropriations of \$3,804, primarily for grant funded improvement projects;
- ❑ Non-departmental appropriations were added in the amount of \$2,833, for grant funded community programs; and
- ❑ Other miscellaneous appropriations were added in the remaining departments throughout the year in the amount of \$1,824.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of June 30, 2002 amounted to \$1,096,306 (net of accumulated depreciation). This investment includes land, buildings and improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total increase in the City's net investment in capital assets for the current fiscal year was \$78,957 (\$30,120 for governmental activities including internal service funds and \$48,837 for business type activities).

Major capital improvements during the current fiscal year included new infrastructure consisting primarily of the addition of a new bridge and street improvements totaling \$31,957, various park improvements totaling \$4,090, Electric department system upgrades of \$18,758, Water department system upgrades of \$9,141, and Sewer department system upgrades of \$1,241.

Construction in progress totaled \$75,511 at June 30, 2002. Of this amount, \$39.2 million reflects the progress to date on the installation of four natural gas turbine generators by the City's Electric Utility. Depreciation expense during the fiscal year was \$16,220 for governmental activities and \$23,341 for business type activities.

City of Riverside's Capital Assets
(net of depreciation)

	Governmental Activities		Business Type Activities		Total	
	2002	2001	2002	2001	2002	2001
Land	\$ 114,337	\$ 114,337	\$ 30,425	\$ 30,298	\$ 144,762	\$ 144,635
Buildings and improvements	55,233	55,035	138,439	140,214	193,672	195,249
Improvements other than Buildings	18,664	17,030	369,712	357,922	388,376	374,952
Machinery and equipment	16,011	15,261	9,043	10,347	25,054	25,608
Infrastructure	268,931	245,669			268,931	245,669
Construction in progress	<u>4,867</u>	<u>591</u>	<u>70,644</u>	<u>30,645</u>	<u>75,511</u>	<u>31,236</u>
Total	<u>\$ 478,043</u>	<u>\$ 447,923</u>	<u>\$ 618,263</u>	<u>\$ 569,426</u>	<u>\$ 1,096,306</u>	<u>\$1,017,349</u>

Additional information on the City's capital assets can be found in note 5 on page 36 of this report.

Long-term debt. At the end of the current fiscal year, the City had total bonded debt outstanding of \$473,311. Of this amount, \$473,176 represents bonds secured solely by specified revenue sources (i.e., revenue bonds) and \$135 is special assessment debt for which the government is liable in the event of default by the property owners subject to the assessment.

City of Riverside's Outstanding Debt
General Obligation and Revenue Bonds

	Governmental Activities		Business Type Activities		Total	
	2002	2001	2002	2001	2002	2001
Revenue Bonds	\$117,555	\$122,425	\$355,621	\$299,244	\$473,176	\$421,669
Special assessment debt with Government commitment	<u>135</u>	<u>195</u>	<u>0</u>	<u>0</u>	<u>135</u>	<u>195</u>
Total	<u>\$117,690</u>	<u>\$122,620</u>	<u>\$355,621</u>	<u>\$299,244</u>	<u>\$473,311</u>	<u>\$421,864</u>

The City's total debt increased by \$49,519 (11.0 percent) during the current fiscal year due to the issuance of \$67,215 in new utility revenue bonds offset by scheduled debt service payments.

The City's Electric and Water Utilities both maintain a "AA" rating from Standard & Poor's and a "Aa" rating from Fitch for their revenue bonds.

State statutes limit the amount of general obligation debt a governmental entity may issue to 15 percent of its total assessed valuation. The current debt limitation for the City is \$1,651,192, all of which is excess because the City has no outstanding general obligation debt.

Additional information on the City's long-term debt can be found in note 7 on page 38 of this report

Economic Factors and Next Year's Budget and Rates

- ☐ The assessment roll for the City increased 8.93% between fiscal year 2002 and fiscal year 2003.
- ☐ Sales taxes increased between fiscal year 2001 and 2002 by 10%.
- ☐ Employment in the Inland Empire is up 3% over the prior year, although unemployment is also up to 5.1% as of May 2002 compared to 4.4% for May 2001.
- ☐ The voters of the City of Riverside passed Measure C in March 2002, providing for a special parcel tax amounting to \$1.2 million each year for each of the next ten (10) years, with revenue restricted for library purposes.
- ☐ Effective November 1, 2002, City electric rates will increase 3.4%. Rates will increase to help fund the new 40 MW generation station and to maintain customer service.
- ☐ The State of California is facing a significant budget deficit.

At the time of budget preparation for fiscal year 2003, the economic outlook for the City was considered to be good, but recent months have suggested that revenue estimates were too conservative. The General Fund Budget for fiscal year 2003 of \$143 million contemplates the use of approximately \$12 million of the beginning fund balance. If the positive revenue trend continues, the General Fund balance will not decrease as much as currently budgeted. The most significant unknown factor is the effect of the State deficit on local revenue.

Request for information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 3900 Main Street City of Riverside, CA 92522.